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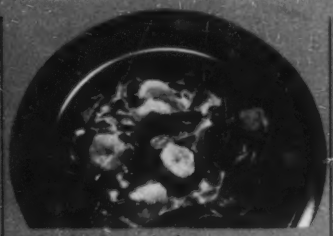
CHAIN LEADERS: HOW 1986's TOP PERFORMER



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FEBRUARY 4, 1987

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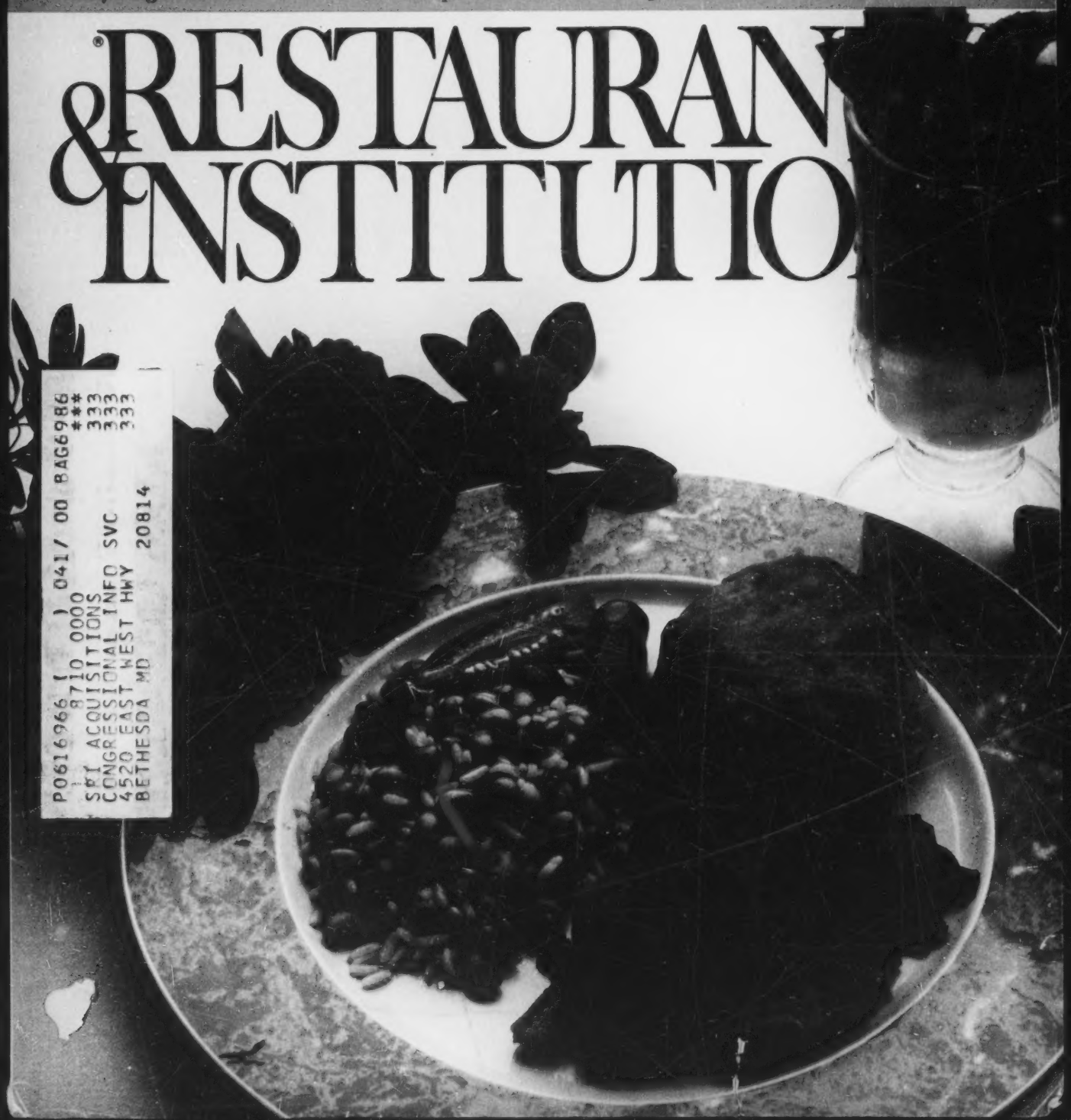

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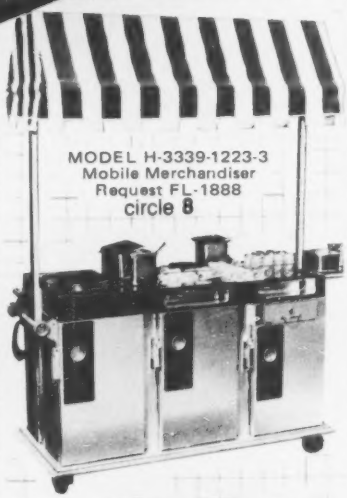

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R&I EXCLUSIVE

■ UPDATE

ANNUAL REPORT: FOODSERVICE SALES SCENARIOS

In our Annual Report issue of January 7, 1987, some of the figures for the National Restaurant Association segment projections were stated incorrectly. Following is a revised version accurately reflecting the NRA forecast.

Segment, sales in millions	*Restaurants & Institutions* (3.4% inflation) '87 sales	Real growth	National Restaurant Assn. (4.0% inflation) '87 sales	Real growth	Technomic Consultants (3.4% inflation) '87 sales	Real growth
Full service	$60,079	+1.2%	$71,280	+2.3%	$58,289	+1.1%
Fast food	56,509	+2.5	55,833	+3.4	59,614	+3.0
Hotels and motels	7,829	+0.8	12,270	+2.9	6,576	0.0
Recreation	2,407	+1.2	5,944	+1.0	6,393	+2.0
C-Stores/Supermarket delis	4,116	+7.6	—	—	1,807	+7.0
Other Retail: Dept./Drug	2,510	+0.4	8,062	+9.8	3,469	+1.3
Bars/Taverns	—	—	8,757	−1.0	1,171	0.0
TOTAL COMMERCIAL	**$133,450**	**+1.9%**	**$162,146**	**+3.0%**	**$136,148**	**+2.0%**
Business/Industry	$13,815	+1.8%	$6,797	+1.2%	$14,039	+1.5%
Schools	13,117	+1.0	4,152	+0.8	13,050	+1.0
Hospitals	9,404	+0.2	7,914	−3.3	9,673	−1.0
Colleges/Universities	6,343	−0.4	5,132	−0.1	5,634	−0.5
Military	4,495	+0.2	1,008	−2.6	5,450	+0.5
Nursing homes	3,922	+2.1	4,148	+2.1	3,937	+2.0
Vending	—	—	4,282	−2.1	13,268	+1.5
Transportation	2,667	+1.6	1,915	+3.5	3,129	+2.0
TOTAL INSTITUTIONAL	**$55,595**	**+1.0%**	**$35,348**	**+2.0%**	**$70,224**	**+0.8%**
All other foodservice	$1,832	+2.6%	—	—	$2,044	+0.5%
TOTAL FOODSERVICE MARKET	**$189,045**	**+1.6%**	**$197,500**	**+2.4%**	**$206,372**	**+1.6%**

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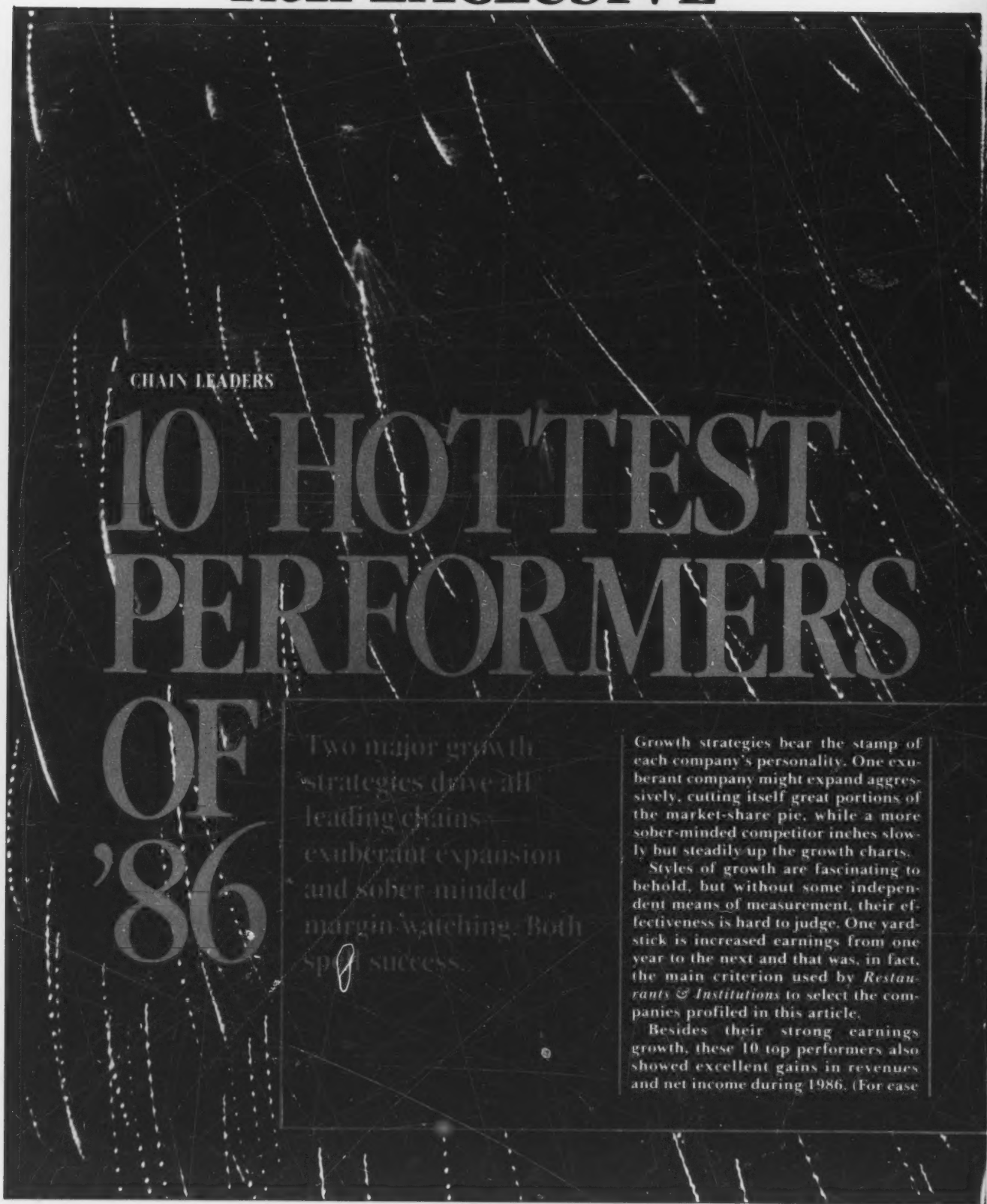


CHAIN LEADERS

10 HOTTEST PERFORMERS OF '86

Two major growth strategies drive all leading chains—exuberant expansion and sober-minded margin watching. Both spell success.

Growth strategies bear the stamp of each company's personality. One exuberant company might expand aggressively, cutting itself great portions of the market-share pie, while a more sober-minded competitor inches slowly but steadily up the growth charts.

Styles of growth are fascinating to behold, but without some independent means of measurement, their effectiveness is hard to judge. One yardstick is increased earnings from one year to the next and that was, in fact, the main criterion used by *Restaurants & Institutions* to select the companies profiled in this article.

Besides their strong earnings growth, these 10 top performers also showed excellent gains in revenues and net income during 1986. (For ease

of comparing financial data, only publicly traded companies were chosen.)

The growth spurt meant something a little different for each company. For instance, Marriott Corp. and Dairy Queen International each continued a multiyear roll of record profits, while Collins Foods International made an impressive recovery after a dramatic earnings decline the preceding year.

How do these companies grow? Spurred on by the belief that "the big get bigger, while the rest sell out," many seek the most literal kind of growth—an increase in size. A dazzling example is The Country's Best Yogurt (TCBY), which doubled its number of units and built a $5 million

EARNINGS PER SHARE

Increased earnings per share for the latest quarter, compared to the same time a year earlier, show that *R&I*'s 10 top-performing companies—and their stockholders—are prospering.

	Latest Quarter	Previous Year	% Change
Chili's	27	26	4
Collins	57	28	104
Dunkin' Donuts	43	38	13
Int'l. Dairy Queen	51	43	19
Marriott Co.	99	86	15
Nat'l. Pizza Co.	23	20	15
Piccadilly Cafeterias	33	27	22
Ryan's	17	09	89
TCBY	18	07	157
USACafes	20	10	100

HOTTEST PERFORMERS

Careless Expansion Is Risky; 10 Plan for Growth

"... You can't build helter-skelter in the name of growth ..."

manufacturing facility to boot. A fledgling company just four years ago, TCBY now leads the burgeoning frozen yogurt field.

Ryan's Family Steak Houses and Chili's Grill & Bar, successful regional chains with a yen to go national, also are expanding vigorously. Whether they achieve their goal may depend as much on an ability to tap and train good managers as on adept handling of their building programs.

By doubling in size, the Marriott intends to become one of the dominant five or six companies in the country. For a mature corporation like Marriott, already operating off a large base, acquisitions are the fastest route to growth. Not a bargain basement shopper, Marriott tries to skim the cream of available companies—Saga, a large contract foodservice company, was its major coup of 1986.

National Pizza is playing an acquisitions game with a slightly different twist. Through buying large, lucrative franchise territories as they come on the market, the largest Pizza Hut franchisee is extending an already sizable empire.

Whether aggressive or conservative, expansion makes sense only when justified by consumer demand and a strong financial structure. Undisciplined physical expansion or the acquisition of a company with problems can be hazardous to the health of a restaurant company.

"The industry has gotten a strong message that you can't build helter-skelter in the name of penetration and expect to make it pay off through marketing," says analyst Jay Fairchild of A.G. Edwards & Sons, St. Louis. "In the end, it's a futile exercise if everyone's rushing for the same territory or the same market."

Smart companies hold back unless all the right signals for expansion are present, agrees Steven Rockwell, vice president of Alex. Brown & Sons, Baltimore. "For the better companies, the constraining factor is adequate management staff."

A second and perhaps more important growth strategy squeezes higher sales or a better profit margin out of existing operations. Many analysts believe this kind of earnings increase points to prolonged growth more reliably than sales figures pumped up by physical expansion or acquisitions.

The companies surveyed in this article supply numerous examples of this more reliable brand of growth. New products, remodeling, more efficient equipment and systems—they've done it all.

Ryan's balances high food costs with high volume to produce per-store sales in excess of $2 million. The right product introduction—a good example is Dairy Queen's Blizzard—can make same-store sales blossom.

National Pizza and USACafes hope to grow through home delivery of pizza and barbecue. They're finding that higher labor costs are offset by lower costs for facilities construction.

To diversify or not to diversify—this is one question restaurant companies ask themselves in deciding how to grow. "It was chic two or three years ago to be a diversified company," says analyst Jay Fairchild. "Now the in thing is to be a narrowly focused chain."

That observation holds much merit, judging by our narrow but exclusive sample of top performers.

Ryan's and National Pizza have never wavered from their resolve to do just one job well. After disappointing experiences with diversification, Collins Foods International has reaffirmed allegiance to its original fast-food enterprises. Although Marriott is diversified, future growth will probably be limited to the segments in which it is already active.

A few companies on our list continue to see growth opportunities in diversification. Even after several setbacks, USACafes is intent on branching out from a steakhouse base to become a multiconcept franchisor. And, for the first time in its profitable history,

Pizza Hut's Priazzo Italian Pie could give extra momentum to National Pizza Co. in the accelerating home-delivery race.

Repositioning of the Steak-Seafood-Salad Sizzlers helped lift Collins Foods International out of an earnings slump.

Dunkin' Donuts is stepping ouside the doughnut niche to become a Chili's franchisee.

Restaurant companies need that cliché of the '70s, "room to grow." The health of the industry segment and regional economic conditions can either support or discourage growth. Because pizza and ice cream sales are outstripping those for the industry as a whole, companies in those segments needn't take customers away from their competitors in order to grow.

In contrast, Piccadilly Cafeterias has managed to sustain steady growth under adverse conditions. The small chain's steady progress is admirable, given its concentration in the "Oil Belt" and the fact that national cafeteria traffic is down 2%.

Rather than lamenting the no-growth status of the steakhouse segment, USACafe's Bonanzas and Collins' Sizzlers are catapulting themselves into a different segment—general family dining with limited service—where the growth outlook is better.

Reading about these companies might give the impression that growth is the norm. It is not. The costs and the risks of growth are greater now than ever before. The preference for acquisitions over in-house startups, the retreat from diversification into narrowly defined niches are no accidents, but adaptations to a highly competitive environment.

Within the total restaurant universe, opportunities for growth are limited. In the sobering words of one restaurant analyst, "1987 and 1988 will be years of consolidation. Restaurant expansion and real growth will be more modest. As real growth becomes tougher, companies will be closing unprofitable units or enterprises." Inevitably, some companies will go broke or be absorbed by a competitor.

Undaunted by this forbidding environment, the companies profiled in these pages will pursue their individual vision during 1987. They can plan for growth, but corporate growth resembles human growth in at least one important way: Neither can be forced.

In the most fundamental sense, growth happens naturally to companies doing everything else right.

The drive-thru option pleases Dunkin' Donuts customers in a hurry. Others can linger inside over doughnuts and Dunkin' Decaf.

READY FOR GROWTH? HERE'S HOW.

- Grow with no construction costs by increasing same-store sales or improving your profit margin. Methods include better marketing of new products, more efficient systems and equipment and remodeling. Size up the competition before entering a new market. Success comes harder when you must take away someone else's customers than when good restaurants are in short supply.
- Expand in relation to your ability to manage a new enterprise. Do you have enough experienced managers and an adequate infrastructure (things such as good computer support)?
- Diversify with caution, moving only into restaurant segments growing faster than the industry average.
- Cluster new operations in a limited geographical area to gain economies of scale for advertising and supervision. But don't overdo it or you'll cannibalize your own sales.
- Analyze your financial base. Do you have a low debt-to-equity ratio? Adequate capital? Property ownership to keep operating costs under control if good times turn bad?

HOTTEST PERFORMERS

Winning Ways of Two Firms

Chili's heads for new markets, while Collins pulls back.

■ **Chili's Grill & Bar Inc.**
Headquarters: Dallas

President Ronald McDougall protests that tax reform has moved Chili's into a higher bracket, resulting in an apparently meager earnings gain between the latest quarter and the same time last year. He argues that pretax earnings growth, which totaled 26%, offers a more accurate picture of the company's progress.

That's better, yes, but Chili's financial performance last year does not explain why it's on our list of top growth companies. Instead, a reputation within the industry as a well-managed company with the right mindset for growth helped nudge out other contenders.

Executive Richard Hart sums up that reputation in explaining why his company, Dunkin' Donuts, is eager to develop and operate Chili's franchises in the Northeastern United States and Canada: "We think the concept is excellent—and the company's management team is even more impressive."

Founded in the early '70s, Chili's passed from private hands to the public domain in 1984. The company is well on the way to meeting a short-term goal of expanding from 12 to 22 states by next June, for a total of 115 stores.

Two-thirds of current units are in Texas, Oklahoma and Louisiana, but 83% of future expansion is planned outside the "Oil Belt." The positive reaction to Chili's stores in Los Angeles and Washington, D.C., feeds hope that the company can become a national chain.

Chili's top managers are heavy hitters in the restaurant game. Chairman and Chief Executive Officer Norman Brinker not only founded Steak & Ale Restaurants, but ran Burger King Corp. A veteran of the same two corporations, President Ron McDougall helped create the Bennigan concept while at Steak & Ale.

"Because most of us have worked for far larger companies, we don't have to ask what to do next. It's not the first time we've been there, and that's the crucial difference between us and most small chains," says McDougall.

One fruit of that experience is a predilection for disciplined action based on careful research. Describing Chili's expansion program as "cautious," McDougall says sophisticated regression site models are done for every proposed location. The company clusters expansion to make good use of resources and constantly regroups management so that new stores needn't scrape by with inexperienced managers.

Journalists imposed the "gourmet hamburger" label on Chili's, according to McDougall. But, even before that trend lost steam, the company never categorized itself that way. Chili's does serve a lot of burgers, but 55% of sales come from something else.

Although food is important, the chain sidesteps identification with a particular kind of food. The life style emphasis of advertising and the theme, "No place else but Chili's," aim instead for a concept that can evolve along with the target audience: baby boomers.

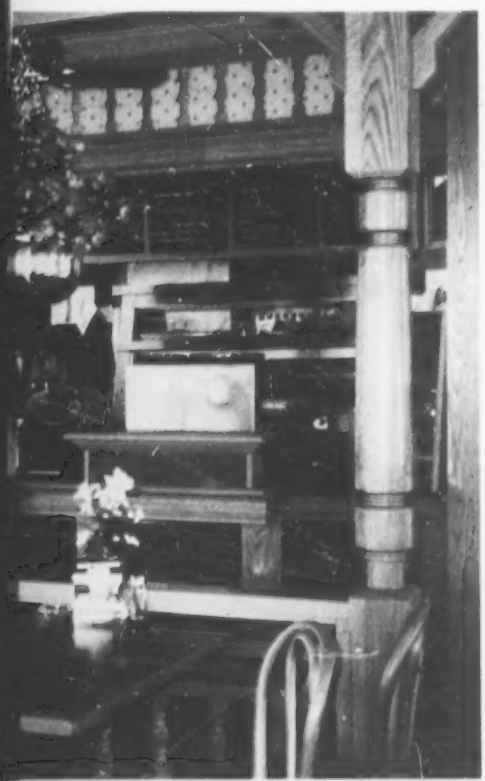
Chili's responds to the changing tastes of baby boomers by adding ribs and chicken to the fancy-burgers menu lineup.

■ **Collins Foods International Inc.**
Headquarters: Los Angeles

James Collins, founder of Collins Foods International, was quoted in a 1984 issue of *BusinessWeek*: "We have lots of dollars and need some upward momentum . . . new restaurants are a way to get growth."

To that end, Collins Foods pumped money into restaurant concepts as diverse as gourmet pizza, expensive hamburgers and Mexican fast food—in addition to pursuing ambitious expansion plans for the company's core restaurants, Kentucky Fried Chicken and Sizzler. (Collins is the largest franchisee for KFC and owns 70% of Sizzler, which was spun off in 1982.)

The outcome of this high-spirited venture into unfamiliar markets showed up in the 1986 financial charts, which resemble a roller coaster. Revenues, profits and earnings rose for the core companies, but plummeted for newly acquired ones. Overall, the com-



Expanded Kentucky Fried Chicken stores run by Collins Foods offer a choice: sit down, takeout or drive-thru.

pany's earnings declined by more than two thirds between 1985 and 1986, ending 20 quarters of growth.

Naugles, the Mexican-American chain in which Collins is a majority stockholder, lost money at the rate of $1.5 million a quarter. Josephina's, a white tablecloth chain, went down the tubes entirely. Foodservice revenues were sluggish. And the spare capital mentioned by James Collins began to dry up, as the value of the company's oil and gas investments spiraled downward.

Today, Collins is on the rebound. Thanks to a strong performance by Sizzler, first quarter revenues for fiscal 1987 rose 29% to $176 million, compared to $136 million a year ago.

This financial recovery has gone hand in hand with a rethinking of philosophy. Rather than following trendy restaurant concepts wherever they might lead, the company concluded in the most recent annual report that "positive results for our shareholders can best be achieved by our expertise in the fast-food business."

That's the long-range plan, but in the near term, Collins is tailoring growth tactics to the differing fortunes of its various holdings—pushing forward eagerly in some quarters, retrenching in others.

Learning from the Josephina experience, Collins has limited involvement in similar ventures to investment, avoiding an operational role. Enthusiasm about turning Gino's East, a successful Chicago pizzeria, into a national chain is tempered now with caution. Ditto for Ed Debevic's Short Order Deluxe, a group of swanky hamburger joints.

As a fast-food concept, Naugles is a better fit, and Collins executives express confidence in its future. "Naugles had problems," says Christopher Thomas, financial vice president, "because of overly aggressive expansion over too broad a geographical area—management was spread too thin. But the basic concept of high-quality Mexican food is a good one."

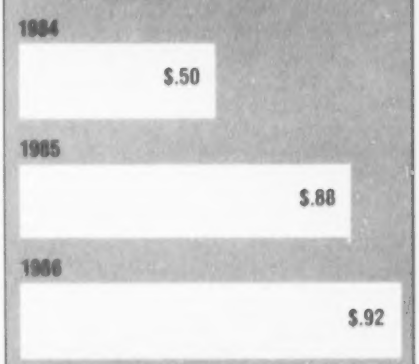
Collins has helped Naugles "pull back into the better markets" by closing unprofitable units, starting a marketing program and clamping down on food and labor costs. Already, the chain has responded with small but respectable pretax earnings of $335,000 during the most recent quarter.

KFC has provided stability through all the turmoil, but dramatic growth here is unlikely. Unless new franchise territories become available, Collins cannot expand physically, nor can major changes be made without permission of the parent company. "We are taking steps to keep the concept fresh and dynamic—such as adding seats and testing baked chicken—but these are fairly minor," says Thomas.

Instead, hopes for meaningful short-term growth center on Sizzler. In 1986, Collins completed the repositioning of the former budget steakhouse chain into a midpriced concept that gives equal billing to steak, seafood and salad. Most of the 515 units have been remodeled.

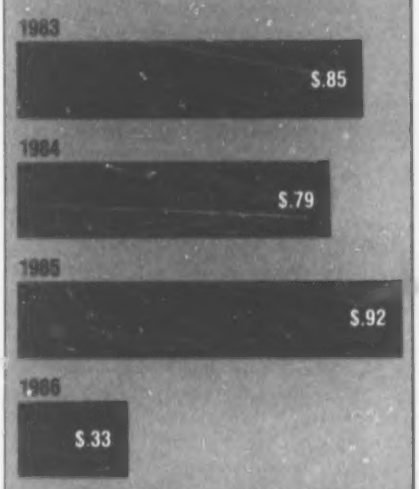
CHILI'S BREAKS OUT OF OIL BELT

Pretax earnings surge, as crack management team plans expansion to 22 states and 115 stores. Focused research aims at lifestyle approach to baby boomer group.



COLLINS SIZZLES AGAIN

Saying its strength lies in fast food, this West Coast company is pushing forward eagerly with both its Sizzler and Kentucky Fried Chicken concepts.



HOTTEST PERFORMERS

Dunkin' Donuts, IDQ: Masters of Growth

Past successes do not stop these companies from trying new approaches.

■ **Dunkin' Donuts**
Headquarters: Randolph, Mass.
Flush with profits from jelly doughnuts and muffins, Dunkin' Donuts faced three choices: to start a new enterprise on its own, to make a major acquisition or to become a franchisee of a worthwhile company. After sustaining 16% increases in net income for two straight years, the 33-year-old company could afford to be selective in its first venture outside the doughnut niche.

In the end, the third alternative was the most attractive, and in 1987, Dunkin' Donuts will open its first store as a franchisee of Chili's Grill & Bar. A separate division, Dunkin' Ventures, will run the Chili's stores, slated for the New England states, eastern Canada and upstate New York.

"There was less risk and greater potential," says Richard Hart, vice president and treasurer. "By going with a proven concept, we avoided spending hundreds of thousands of dollars on a concept that might not click."

Outside observers are a little more cautious about the prospects for succeeding with the Chili's franchises. Joel Krausner, an analyst with Dean Witter Reynolds, praises Dunkin' Donuts' strong balance sheet and typical return on equity, which has not fallen below 16% during the past 10 years. But he adds, "One long-term concern is whether it will be quite as successful with Chili's."

Meanwhile, the company's doughnut stores are changing ever more rapidly. A detailed growth plan calls for adding new units (already 1,450 strong) and keeping customer satisfaction high through strict quality control.

About 60 shops a year are revamped with new signage, expanded menu boards, new wallpaper and the like. The payback comes the first year, in the form of sales volume increases double those of unremodeled stores. National advertising is stronger, too, since the parent company persuaded franchisees to increase their advertising contribution from 2% to 4% of gross sales.

Doughnuts and coffee are still mainstays, but the company has gradually pushed out the perimeters of that niche to include much more. "It all began a dozen years ago, when we gave our doughnut holes a name and identity—munchkins. Then, to supply more business during the noon hour, we added a high-quality line of soups," says Hart.

During the late '70s, the addition of muffins brought ovens into the stores. Cookies and brownies followed, as the repositioning of Dunkin' Donuts went into high gear. Croissants not only supplemented the line of breakfast treats but, filled with ham, cheese or roast beef, strengthened lunch traffic still more. Most recently, biscuits have been tested in the Southwest.

Savory croissant sandwiches are giving Dunkin' Donuts more lunch-time action.

Even the coffee is changing. The company takes special pride in newly introduced Dunkin' Decaf, which uses

beans roasted and ground in the store.

■ **International Dairy Queen Inc.**
Headquarters: Minneapolis

International Dairy Queen treated stockholders during fiscal 1986 to earnings nearly 50% higher than the preceding year. By the end of the third quarter, profits totaled $10.3 million, well beyond 1985's year-end figure of $9.7 million.

No one was particularly surprised, for those financial indicators marked the culmination of 13 consecutive years of growth in revenues and net income.

President Harris Cooper explains how IDQ did it: "We don't make the numbers by opening new stores, like some companies, but by continuing improvement of stores already in place. If the system doesn't grow, it doesn't matter how many new stores you open—the base will erode."

That solicitous attitude towards the chain's 5,000 stores resulted in the introduction two years ago of the Blizzard, a mixture of soft-serve ice cream with cookies, fruit and national-brand candy. Boosting same-store sales, the gooey, hugely successful concoction now accounts for 18% of all sales. After installing dispensers in the remaining 40% of Blizzard-less stores during 1986, IDQ expects even better sales results this year.

Queen's Choice, a premium hard ice cream introduced several years ago, has caught on more slowly, in part because advertising funds were diverted to the Blizzard. "You start riding that horse, and when you see where it's going, you keep riding it," says Cooper. "Unfortunately, that decision slowed what would have been a stronger marketing effort for hard ice cream. Queen's Choice was on a five-year track and now it's probably seven."

Meanwhile, IDQ is testing everything from doughnuts to hamburgers in a basket, in the hope of hitting on another winner.

IDQ built 170 new units during 1986, but not because it was following a rigid schedule of expansion. New stores are not crucial to the company's growth strategy, so they go up only under optimal conditions. When interest rates or real estate costs become uncomfortably high, Dairy Queen simply stops building. This take-it-slow, do-it-right attitude also comes into play in screening potential franchisees, choosing sites and reviewing construction plans.

With 5,000-plus stores, could Dairy Queen be in danger of saturating the market? Cooper scoffs at the idea: "When we've built 10,000 more, I'll begin to worry."

The year brought not only higher sales and more stores, but ownership of a new property: Karmelkorn. The acquisition not only fit into the same "treat" category as Dairy Queen stores, but triggered an ingenious scheme to pair the two.

Most of Karmelkorn's 240 units are in shopping malls, traditionally a problematic site for Dairy Queen because its units need less space than the minimum 1,000 feet required by many mall operators. That barrier is down now, as plans for "Dairy Queen Treat Centers" go forward. Dairy Queen will use 500 feet, Karmelkorn the other 500, for a profitable operation with great space utilization.

IDQ plans to build at least 20 treat centers by the end of 1987, and will offer current Karmelkorn franchisees the chance to add Dairy Queen.

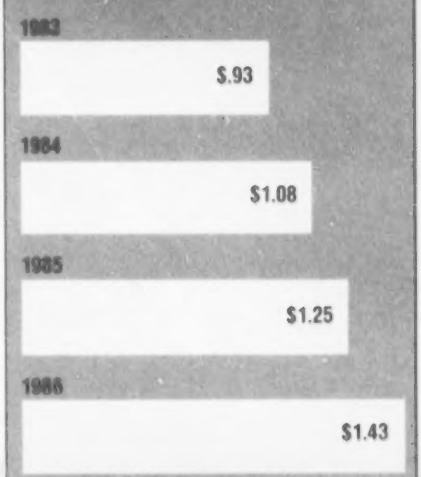
The only cloud on an otherwise clear financial horizon is Golden Skillet International Inc. Purchased in 1983, the subsidiary is conspicuously absent from the message to shareholders in the latest annual report.

"It's not losing money, but it's not helping us, either," comments Cooper.

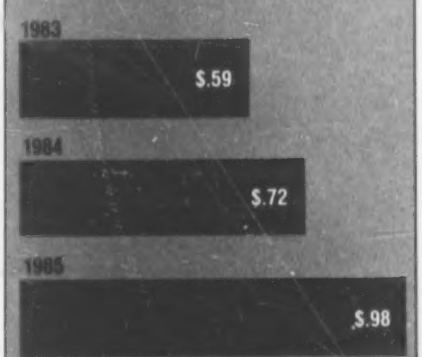
continued on page 44

The phenomenal Blizzard captured 18% of International Dairy Queen sales during 1986.

DUNKIN DONUTS JOINS WITH CHILI'S
New product lines to follow on heels of successful muffins, brownies, cookies and croissants; more stores, bigger advertising budget spur momentum for '87.



SWEET PROFIT PICTURE FOR IDQ
Take-it-slow, do-it-right attitude buttressed by Blizzard rollout; Queen's Choice catches on; Karmelkorn acquisition fits into company's "treat" philosophy.



HOTTEST PERFORMERS

Acquisitions Speed Growth of Marriott, National Pizza

Marriott buys Saga, while National Pizza gets the best Pizza Hut franchises.

■ **Marriott Corp.**
Headquarters: Washington, D.C.

Marriott Corp. plans to transform itself from a company with $5 billion in sales into a $10 billion company during the next five years, a task requiring annual earnings growth of at least 20%.

No problem, says Vice President Francis Cash. "We've sustained that level of growth over the past two decades. As long as we can develop the right management people, the size of the company can double with no sacrifice of quality."

Rapid but intelligent growth not only benefits stockholders, according to Cash, but enables key executives to move into positions of greater responsibility. Marriott also needs sheer size and market clout to become one of the top players.

A look at one of those segments shows Marriott's impressive skills on the playing field. In 1985, the purchase of two companies, Service Systems and Gladieux, tripled the size of foodservice management operations. This year the big story was the acquisition of Saga Corp. with fiscal 1985 sales of $1.3 billion. Shedding Saga's restaurant chains, most of which had operational difficulties, Marriott grasped the real prize—contract foodservice.

"What we saw in Saga was a once-in-a-lifetime chance to become the country's finest foodservice management business. It was a true merger—the quality of the management and accounts were a perfect match with ours," says Cash.

During the past 10 years, while Marriott's foodservice and hotel operations have bounded up the growth charts, the restaurants have turned in a more mixed performance. In 1985, restaurant sales increased 5% and operating income just 3%. The Roy Rogers subsidiary showed real growth on a unit-by-unit basis, but Big Boy did not.

Despite the lackluster performance, relative to other Marriott holdings, management is optimistic about the long-term growth potential of the restaurants. Big Boy is expanding, as the Howard Johnson operations purchased a year ago undergo conversion.

A company that wants to be No. 1 in all its segments cannot afford slow, steady expansion. Hence, Marriott's strategy of scoring quantum leaps in growth through buying well-established companies.

Not an impulsive shopper, Marriott backs up decisions with self-discipline—never allowing financial affairs to fall into disarray for the sake of a tempting deal. The increase in return on equity from 11% to 22% since 1974, for example, offers strong evidence to stockholders that Marriott will not gamble recklessly with their money.

Nor is "diversification" a euphemism for risky experiments. "We're diversified, yes, but we also believe in tending our knitting. You won't find us trying to build computers," says Cash.

"Our senior people know the kind of businesses they're managing, and that's where our growth will happen."

■ **National Pizza Co.**
Headquarters: Pittsburg, Kan.

National Pizza Co., the largest franchisee of Pizza Hut Inc., completed its first year as a publicly held company only in 1986. But the 23-year-old company, based in Pittsburg, Kan., earned its high-growth credentials long before that.

National Pizza's franchisor, Pizza Hut, capitalized on the popularity of Pan Pizza by introducing Personal Pan Pizza.

The purchase of Sky Chef's terminal concessions business gives Marriott a larger share of the airport catering market.

During the past two decades, National Pizza has shown compounded sales growth of more than 27%, coupled with compounded earnings growth of 25%. The foundation for physical expansion is solid, but it's no simple matter. Since 1972, when Pizza Hut granted the last initial franchise, the system has been closed except for internal buyouts.

Undaunted, National Pizza has managed to add new units at a rapid clip. During fiscal 1986, the total store base expanded from 99 units to 152 units. Only part way through fiscal '87, the company has signed papers for another 58 units.

Growth is taking place through two strategies: acquisition of other franchise territories and the addition of separate home-delivery units to existing territories.

Because new franchise opportunities defy prediction, "we tell the investment community not to count on them," says J.J. Fitzsimmons, vice president and chief financial officer. Still, those windfalls have come National Pizza's way with astonishing regularity.

Because National Pizza is one of the rare buyers with the financial muscle to buy a large group of Pizza Hut units, there has been "no dearth of opportunities," explains Fitzsimmons.

The plums of this endeavor are multi-unit franchises put up for sale by long-time owners ready for "the big payday." Of less interest are offerings of one or two stores, unless they are contiguous to currently held territories in the South, Midwest and California.

In negotiating for new territories, National Pizza drives a hard bargain. By paying no more than nine times current earnings per share, the company avoids temporary dips in earnings. That rule of thumb might be waived, however, if an acquisition promising long-term growth justified short-term sacrifices. "Sometimes you have to make the best decision for one to three years out, not just for the next quarter," says Fitzsimmons.

At the same time, National Pizza is unabashedly going down the same road as Domino's—in a delivery truck. Along with other Pizza Hut franchisees, National Pizza is borrowing its competitor's 30-minute delivery promise and expects to complete about 40 stand-alone delivery units by mid-1987.

"Domino's may be the king of delivery, but we're the quality leader," says Fitzsimmons. He lists the advantages of Pizza Hut franchisees: a broader product line, including the successful introduction of Priazzo and Calizza in 1986; total market share clout estimated at 46%; and a position among restaurant companies as the fifth largest television advertiser.

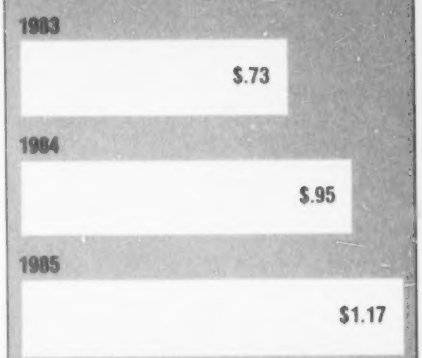
Analyst Jay Fairchild of A.G. Edwards & Sons agrees that "if anyone can catch Domino's, it's Pizza Hut. National Pizza has been smart because it's seen opportunities to grow within a good system."

Home delivery will enable National Pizza to double up in existing franchise territories. Following a great deal of internal worry that delivery units might cannibalize business from the company's own sit-down "red roofs," the chain concluded they would not.

Fairchild is not so sure. "If the red roofs lose even 10% to 15% of their volume, it would have a big impact on profitability."

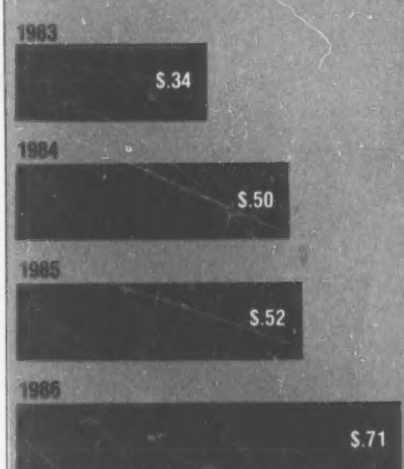
MARRIOTT AIMS AT $10 BILLION

Will need to continue annual growth rate of 20%; Saga, Sky Chef purchases strengthen its position in contract and airport catering markets; Big Boy expands.



NATIONAL PIZZA GROWS MANY WAYS

Major Pizza Hut franchisee expands through purchase of new territories and addition of home-delivery units; continues to pick off plum multi-unit franchises.



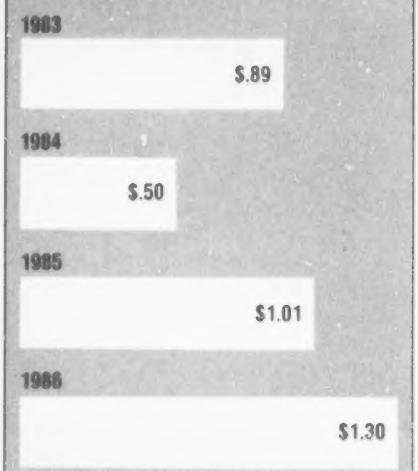
HOTTEST PERFORMERS

Toughing Out Hard Times

Undaunted by a harsh economic climate, Piccadilly moves beyond the Sun Belt.

PICCADILLY BEATS OIL RECESSION
1986 shows a record 30% gain; cafeteria chain benefits from customers "trading down" to reasonably priced meals; continues to accent training.

Earnings per share



■ **Piccadilly Cafeterias Inc.**
Headquarter: Baton Rouge, La.

The collapse of oil prices has destroyed many Sun Belt companies, but Piccadilly Cafeterias is not one of them. In contrast to 1983, when the company's earnings slipped, fiscal 1986 brought a record 30% gain in net income, from $9.5 million to $12.2 million.

Part of the profits came from improved operating margins, part from a 1% gain in customer counts. "One percent might not sound like much, but because we're a volume business, small increases have a compounding effect," says Rodney Garrison, executive vice president and treasurer.

Some new customers might have "traded down" from the white tablecloth restaurants they frequented in better times. "People perceive Piccadilly's as a nice but reasonably priced place to eat," says Garrison.

Although 40% of the chain's 110 cafeterias are in economically troubled Texas and Louisana, that concentration is lower than for several other cafeteria chains in the region.

Nonetheless, Piccadilly is seeking sites beyond the Sun Belt for the first time in the company's 44-year history. Agreements have been signed for several new units in Modesto, Calif., where company officers believe that cafeteria competition is less intense. Arizona, Colorado and northern Virginia are also under close scrutiny.

Piccadilly has all the earmarks of a company that thinks long and hard before opening a new cafeteria. Nearly half a century after the first Piccadilly opened, the size of the chain remains miniscule by industry standards.

All units are company-owned, and to exert even more control, Piccadilly supplies its own architects, interior design staff and construction firm. The company's freedom from long-term debt might be interpreted as determination to prevent even the banker from casting a vote in the company's future.

Financially conservative? Yes, but Piccadilly is slow to expand for other reasons as well.

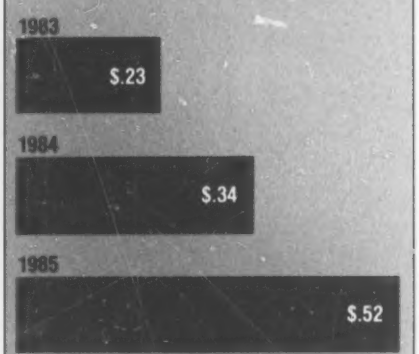
"Cafeterias are a hard kind of restaurant to run successfully, in terms of staffing. It takes time to develop chefs, salad makers, managers who can keep a large variety of items out in view, looking good and looking fresh," Garrison says.

So don't expect any flashy behavior from Piccadilly in '87. Quietly serving generous helpings of its award-winning crawfish *étouffé*, the company will be laying the groundwork for another year of record profits. *continued on page 52*

Customers park at Piccadilly Cafeterias for the home-style meals and courteous service that are the company's trademarks.

HOTTEST PERFORMERS

HIGH VOLUME STRATEGY PAYS OFF
Ryan's Family Steak Houses average $2 million annually in per-store sales. With virtually no debt, the company clearly has the financial resources to go national.



Outstanding Year for Ryan's

Ryan's breaks the rules, spending its advertising budget on food.

■ **Ryan's Family Steak Houses Inc.**
Headquarters: Greenville, S.C.

"We think a lot bigger than most companies in our expectations of the business each restaurant will do," says T. Mark McCall, president of Ryan's Family Steak Houses.

Thinking big has meant big profits. During 1986, a typical Ryan's pulled in more than $2 million in revenues, with a net profit of 10%.

McCall has nothing against new units —at a sales-to-investment ratio of 2-1, they pay off handsomely—but he thinks too many companies overlook the potential of increasing same-store sales.

From aging and cutting beef to baking dinner rolls from scratch to cooking fresh vegetables for the Megabar, the company emphasizes store-by-store food preparation.

Ryan's reputation for serving high-quality fare at a reasonable price doesn't come free, for food costs run about 45%. A competitor might budget 38% for food costs, spending the remainder on advertising. Ryan's spends zip on advertising, reasoning that promotions might attract a first-time customer, but good value brings them back.

Even with the advertising budget on the plate, the company's per-customer profit margins are low. A volume game of mind boggling proportions squeezes profits out of those margins. Far from worrying about filling the 320 seats in the standard unit, Ryan's is beginning to build "mega-restaurants" seating about 420.

A maverick in other ways besides food costs and advertising philosophy, the company has stopped granting new franchises. "We think that issuing franchises simply to grow is short-sighted," says McCall.

Industry analysts applaud Ryan's brilliant performance, but question whether the company possesses the management horsepower to attain its goal of going national.

Jay Fairchild, senior restaurant analyst for A.G. Edwards & Sons in St. Louis, says, "Ryan's has yet to reach the critical size where it goes beyond a small entrepreneurial base. It's still a younger, less professional company. To compete nationally, Ryan's might have to do some things differently."

The company is unlikely to change its attitude towards diversification, however. "A lot of companies have met their downfall by overlapping management to handle four or five concepts. You end up losing something," says McCall.

"As long as we have a winner, we'll stick with it. There will always be a demand for high-quality salad bars and beef."

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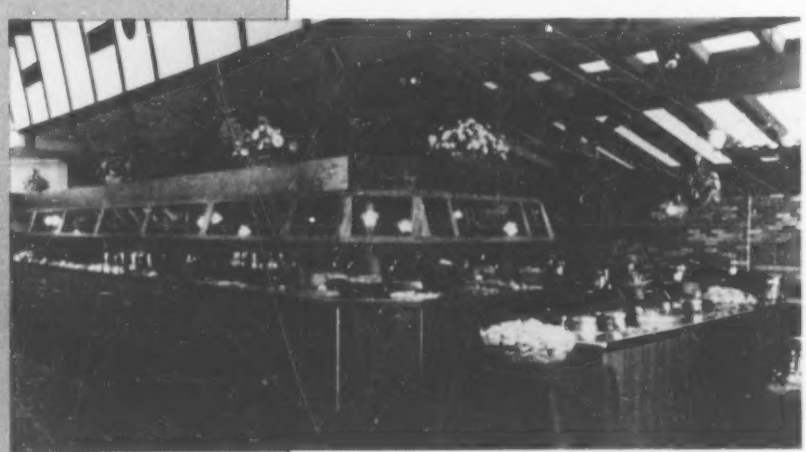


Ryan's "mega food bar" runs the gamut from fried chicken wings to chocolate mousse. Now the regional chain is planning 425-seat "mega restaurants."

HOTTEST PERFORMERS

Freezing Out Competition

Cheered on by franchisees, TCBY corners the frozen yogurt market.

TCBY PERFORMS BETTER THAN EVER
Despite a dip in stock prices, TCBY set new records for sales, profits and earnings. The company plans to double the number of units—again—in '87.

Earnings per share

1984

$.20

1985

$.45

■ **The Country's Best Yogurt**
Headquarters: Little Rock, Ark.
A tiny company of just 18 stores in 1982, The Country's Best Yogurt recently opened the doors to its 460th unit. And the expansion rate is accelerating—during 1986 alone, the company doubled the number of units. Sales and franchising revenues kept pace with the expanding operations base, increasing from $12.3 million to $23.7 million during the first nine months of fiscal 1986.

Any company that calls itself The Country's Best Yogurt must hold its product in high esteem, and executive vice president Herren Hickingbotham confirms this guess. "We make that claim with confidence because our customers say so. We have hundreds of complimentary letters from customers."

TCBY, a vertically integrated company that makes its own frozen yogurt, recently built a $5 million facility capable of supplying the 1,500 units projected for the future.

"One of TCBY's strengths is the fact that it 'owns the cow.' Their competitors aren't big enough to do that yet," says Gary Wirt, a financial analyst.

Many franchisees are growing as rapidly as the parent company—about 80% of the new stores were started by enthusiastic franchisees who already owned at least one small unit.

Despite the snazzy new production facility, TCBY intends to sell soft-serve frozen yogurt and tofu only through the franchises, not in supermarkets and other retail outlets. "The dual focus has obviously worked for Häagen-Dazs, but I can't believe it's helped their franchisees," says Hickingbotham.

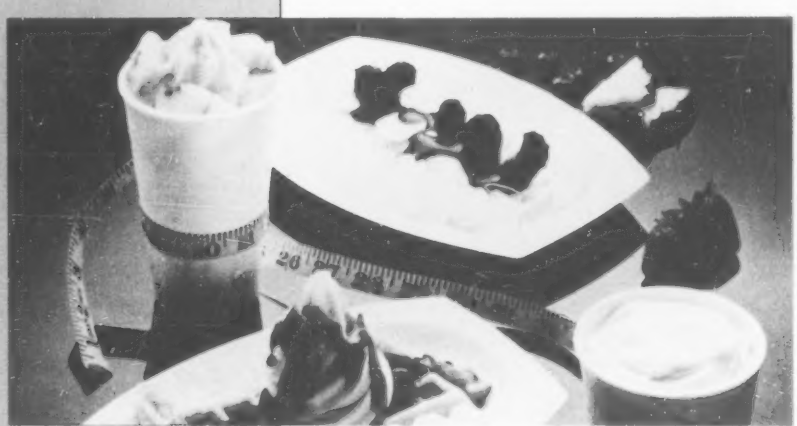
TCBY is not growing in a vacuum, of course. Competitors are proliferating at an alarming rate, attracted by the low investment costs of a simple but profitable concept. Because of the increasingly crowded field and because the frozen yogurt business is realtively new, some analysts think TCBY's explosive growth may be risky.

Based on such concerns, some investors might be having second thoughts about TCBY's stock. In 1985, when the median gain in the price of restaurant stock was a feeble 1.8%, TCBY's stock was up 492%. Then, a few months ago, the company's stock price tumbled from 35 cents a share to 16 cents (it has since recovered some of that ground).

The Chicago Corp.'s Gary Wirt shrugs off that fall from grace as a market correction of stock prices that had risen too high, too fast. Given the ease of entry into the frozen yogurt market, he believes that TCBY's aggressive growth pattern is wise.

"The company's plan is well thought out and they have adequate capitalization to finance the expansion," he says. "Beside, I like their yogurt."

continued on page 64

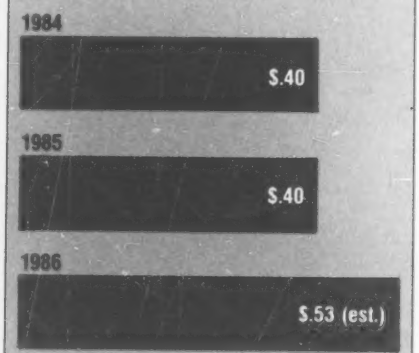


The theme of this promotion: "Great taste. No Waist." TCBY's frozen yogurt has only half the calories of premium ice cream.

HOTTEST PERFORMERS

MENU REVAMP SPARKS TURNAROUND
Bonanzas's profits are up and USACafes is dreaming up new restaurant formulas; franchising formula continues to work; Ribby's concept starts to take off.

Earnings per share



USACafes Builds on Success

Bonanza's profits are up; USACafes is dreaming up new restaurant formulas.

■ **USACafes Inc.**
Headquarters: Dallas

In 1983, USACafes' Bonanza restaurants began to cut loose from a worn-out Western image. Dark woods, steaks on every plate and a blue-collar crowd went out the door, replaced by light and airy interiors, a varied menu and a higher proportion of young, well-educated customers.

Only 37% of current customers now order a steak entree, compared to 75% three years ago. The remainder might choose the Freshtasticks food bar or salad as an entree—good news, because those are higher-profit items.

By the end of fiscal 1987, 75 Bonanza restaurants will be added to the 563 already in place. The new units are larger (260 seats, compared to 210 in the old layout) and already are repaying management confidence in their performance to the tune of $1.2 million.

Rejuvenated by the changes, earnings have swelled by at least 25% each year since 1983. USACafes recently announced a restructuring from corporate to limited partnership form, a change expected to increase monies distributed to stockholders by eliminating federal income taxes at the corporate level.

President Jeff Rogers believes that USACafe's unusual organization as a franchisor deserves much of the credit for this growth spurt. A 4.8% royalty is split with area developers, which then franchise individual units to others.

Rogers likes the franchise system so much, in fact, that he tried to share it with Ponderosa Inc., by taking over the competing company. Ponderosa's board of directors turned down the unsolicited offer.

To date, most of USACafes' experiments in diversification have been disappointing (unless throwing Ponderosa's affairs into chaos for months could be considered a kind of success). Plans for joint ventures with Primo Inc., a Phoenix-based promoter of fast-food concepts, and with Shakey's Pizza Restaurants, Dallas, were ultimately dropped.

One venture that has panned out is the purchase of a Colorado chain called Culpepper's Barbecue Restaurants, which was rechristened Ribby's. There was nothing accidental about the choice. Looking at a survey asking adults which specialty restaurant they had last patronized, Rogers noted that the top-ranking categories were delivered pizza and barbecue. In Ribby's, USACafes saw a chance to capitalize on two of those winning elements: home delivery and barbecue.

Tests of the concept have produced average checks of more than $13 per person, more than compensating for the high labor costs of home delivery. Whether consumers will order enough barbecue, at those prices, to keep volume high remains to be seen.

A handful of Ribby's restaurants does not an empire make, but Rogers is optimistic. "We have an excellent concept here. In essence, we're organizing the first national chain for home delivery of barbecue."

continued on page 70

A new menu and new decor for Bonanza restaurants translate into a new kind of customer who orders beef only 37% of the time.

HOTTEST PERFORMERS

THEY'RE NEW . . . . . AND THEY'RE COMERS

Sybra spent all but $100,000 of the $7.6 million raised by an initial public offering last summer to clear up debts from its failed Fresher Cooker restaurants and several unprofitable Arby's units.

Not a great beginning as a publicly held company, but with a cleared balance sheet, Sybra is poised for expansion.

Sybra ("Arby's" spelled backward) is looking to shopping malls for continued growth as Arby's second-largest franchisee. Ninety percent of the company's 96 stores are already located in malls, and new units will go up at an annual pace of about 15%.

"Our experiences have been good in the stores already open. Sales volumes are higher than in free-standing stores, and it's easier to hire and manage people," says William Wortman, vice president and secretary-treasurer. A shopping mall customer is more likely to buy a high-markup snack, such as a soft drink or french fries.

Sybra is just one of many companies that went public last year. Which of the following would you bet on for strong growth in 1987?

Diet Works of America, Jericho, N.Y.
Discus Corp., Bloomington, Ind.
Duds 'n Suds, Ames, Iowa
Eateries Inc., Oklahoma City
Perkins Family Restaurants, Memphis
Twistee Treat, North Fort Myers, Fla.

Privately Held Companies Had a Good Year, Too

What do ARA, Domino's have in common? A flair for sound growth.

"We set double-digit goals for 1986, and met them," says John Farquharson, president of ARA Services' ARASERVE sector. A service management company active in health care, transportation and other fields, ARA Services became a private corporation in 1984.

ARASERVE spent the year integrating the staff and clients of Cory Food Services, purchased from Hershey Foods, into existing operations.

Fast on the heels of that acquisition came the buyout of Szabo Food Services, with annual sales of more than $200 million.

Sales of ARASERVE's relatively new "Itza Pizza," which delivers fresh-baked pizza to dormitory students, took off in 1986. Although the name might not ring a bell, Itza Pizza ranks among the country's top 25 pizza chains in terms of sales volume.

No article on privately held companies with a passion for growth would be complete without at least a mention of another pizza chain—Domino's Pizza International, the undisputed leader in home delivery of pizza.

In 1986 Domino's grossed $1.5 billion dollars, the second year it topped a billion. With more than 3,600 units now in operation, the company seems well on its way to achieving founder Thomas Monaghan's goal of 10,000 by 1990.

Other pizza chains have copied Domino's winning formula, down to the 30-minute delivery promise. But the imitation seems to work in only one direction—Domino's shows no signs, for example, of abandoning its bare-bones menu of thin-crust pizza and cola.

In the lead, Domino's is not looking back.

—Toni Lydecker

Two companies on the move: Domino's 30-minute delivery policy lets profits come knocking while ARASERVE's growth strategies have put that company first in line.

ACTION EXPRESS

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